

# ARIZONA STATE TREASURER'S OFFICE

1700 WEST WASHINGTON STREET  
PHOENIX, ARIZONA 85007



REQUEST FOR PROPOSAL # 08-03  
FOR  
INVESTMENT ADVISORY SERVICES

*Sealed Written Bids will be  
Accepted until 2:00 p.m. (MST)*

October 31, 2008

Dean Martin, State Treasurer

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## INTRODUCTION

### 1. INTRODUCTION

This document constitutes a Request for Proposal via competitive sealed proposals, from qualified individuals and organizations to perform the Scope of Work set forth herein.

### 2. BACKGROUND/PURPOSE

As noted in Arizona Revised Statutes (ARS) 35-312, among the duties of the Arizona State Treasurer is the responsibility for the investment of treasury monies. The operation and management of the portfolio is further defined by internal investment policy (Exhibit 2).

This Request for Proposal is being issued by the Office of the State Treasurer to satisfy a need for an investment advisor to provide technical and strategic advice in managing the portfolio. The Office of the State Treasurer has recently established a risk management/credit review committee. The investment advisor will serve as an advisory member of this newly formed committee. The selected investment advisor will provide advice only and will not manage funds. The scope of work for this RFP does not include outsourcing of portfolio management.

Participants are encouraged to bid on any or all of the services contained in the Scope of Work. The Office of the State Treasurer reserves the right to make multiple awards for any of the services contained in the Scope of Work.

## OFFER AND ACCEPTANCE

### **Offer**

The undersigned hereby offers and agrees to furnish the service in compliance with all terms, conditions, scope of work and amendments to the solicitation.

By: \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Date \_\_\_\_\_

By signature in the offer section above, the bidder certifies:

1. The submission of the offer did not involve collusion or other anti-competitive practices.
2. The bidder shall not discriminate against any employee or applicant for employment in violation of Federal Executive Order 11246, State Executive Order 99.4 or A.R.S. 41-1461 through 1465.
3. The bidder has not given, offered to give, nor intends to give at any time hereafter any economic opportunity, future employment, gift, loan, gratuity, special discount, trip, favor, or service to a public servant in connection with the submitted offer. Failure to provide a valid signature affirming the stipulations required by this clause shall result in rejection of the offer. Signing the offer with a false statement shall void the offer, any resulting contract and may be subject to legal remedies provided by law.

### **Acceptance**

The Offer is hereby accepted.

#### **Office of the State Treasurer**

By: \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

### **SPECIAL INSTRUCTIONS TO BIDDERS**

## 1 Proposal

Proposals are due at the address listed below on or before 2:00 p.m. (MST) on Friday, October 31, 2008. Responses must include an original plus three (3) additional copies that will be used in the evaluation process. The original copy of the proposal should be clearly labeled "ORIGINAL". The material should be in sequence and related to the Request for Proposal. Proposals received after the date and time specified herein will not be considered. Proposals shall be opened publicly at the time and place designated on the cover page of this document. The name of each bidder shall be read publicly and recorded. All other information contained in the proposals shall be confidential so as to avoid disclosure of contents prejudicial to competing bidders during the process of negotiation. Prices will **NOT** be read. Proposals will not be subject to public inspection until after contract award. Proposals shall be irrevocable offers for sixty (60) days after the proposal due date.

Office of the State Treasurer  
Attn: Klint Tegland, Deputy Treasurer of Operations  
1700 W. Washington  
Phoenix, AZ 85007

## 2 Evaluation

An award shall be made to the responsible bidder whose proposal is determined in writing to be the most advantageous to the State based upon the evaluation criteria listed below. The bidder is cautioned that it is the bidder's sole responsibility to submit information related to the evaluation categories and that the State of Arizona is under no obligation to solicit such information if it is not included with the bidder's proposal. Failure of the bidder to submit such information may cause an adverse impact on the evaluation of the bidder's proposal as to the responsiveness of the proposal and the responsibility of the bidder.

<b>Cost</b>	30%
<b>Conformance to Scope of Work</b>	25%
<b>Method of Approach</b>	15%
<b>Experience</b>	<u>30%</u>
	100

- 2.1 Cost. The bidder must provide a firm, fixed price for all requirements set forth in this Request for Proposal. All firm, fixed prices must be shown on the pricing schedule of this RFP (Exhibit 1) which must be completed and returned with bidder's proposal.

### 2.1.1 Pricing

- Provide a price schedule on the bid form (Exhibit 1).
- Pricing must be submitted in an all inclusive basis.

- 2.2 Conformance to Scope of Work. The bidder must present a written narrative which demonstrates the method or manner in which the bidder proposes to satisfy the requirements of the Scope of Work. The language of the narrative should be straight forward and limited to fact, solutions to problems, and plans of proposed action.

### 2.3 Method of Approach.

#### 2.3.1 Competitive Position and Future Commitment

- What differentiates your service from other providers?

#### 2.3.2 Outsourcing

- Are any services outsourced to a third party? If so, name this vendor(s), and describe the service(s).

- b. Describe the role of any third-party vendor used by the business to provide this service.
- 2.4 Experience and reliability. Please submit any information which documents successful and reliable experience in past performances related to the required services contained herein.
  - 2.4.1 Personnel
    - a. Please list names, titles, phone numbers, and e-mail addresses and provide brief biographies of business contact personnel.
    - b. Identify the primary contact assigned to our account.
    - c. How many employees do you have in key areas providing the service?
  - 2.4.2 Experience
    - a. How long has your business offered the service being requested?
    - b. Specify the number of government/business customers using this service. List your most recent and representative governmental clients and briefly describe the services provided to each.
    - c. Please describe any experience individuals assigned to this engagement have in the assessment of appropriate levels of risk to achieve market returns.
    - d. Provide names and phone numbers of three references, preferably governments who are currently using the service requested. Select a mix of long-standing and recent customers.
    - e. Provide any additional information which you believe to be relevant to your capabilities to provide the services requested, e.g., product brochures, articles in trade journals, etc.

## UNIFORM INSTRUCTIONS TO BIDDERS

**A. Definition of Terms.** As used in these Instructions, the terms listed below are defined as follows:

1. *"Attachment"* means any item the Solicitation requires a Bidder to submit as part of the Offer.
2. *"Contract"* means the combination of the Solicitation, including the Uniform and Special Instructions to Bidders, the Uniform and Special Terms and Conditions, and the Specifications and Statement or Scope of Work; the Offer and any Best and Final Offers; and any Solicitation Amendments or Contract Amendments.
3. *"Contract Amendment"* means a written document signed by the State Treasurer or designee that is issued for the purpose of making changes in the Contract.
4. *"Contractor"* means any person who has a Contract with the State.
5. *"Days"* means calendar days unless otherwise specified.
6. *"Exhibit"* means any item labeled as an Exhibit in the Solicitation or placed in the Exhibits section of the Solicitation.
7. *"Offer"* means bid, proposal or quotation.
8. *"Bidder"* means a vendor who responds to a Solicitation.
9. *"Solicitation"* means an Invitation for Bids ("IFB"), a Request for Proposals ("RFP"), or a Request for Quotations ("RFQ").
10. *"Solicitation Amendment"* means a written document that is signed by the State Treasurer or designee and issued for the purpose of making changes to the Solicitation.
11. *"Subcontract"* means any Contract, express or implied, between the Contractor and another party or between a subcontractor and another party delegating or assigning, in whole or in part, the making or furnishing of any material or any service required for the performance of the Contract.
12. *"State"* means the State of Arizona and Department or Agency of the State that executes the Contract.

**B. Inquiries**

1. Duty to Examine. It is the responsibility of each Bidder to examine the entire Solicitation, seek clarification in writing (inquiries), and examine its' Offer for accuracy before submitting the Offer. Lack of care in preparing an Offer shall not be grounds for modifying or withdrawing the Offer after the Offer due date and time, nor shall it give rise to any Contract claim.
2. Solicitation Contact Person. Any inquiry related to a Solicitation, including any requests for or inquiries regarding standards referenced in the Solicitation shall be directed solely to the Solicitation contact person. The Bidder shall not contact or direct inquiries concerning this Solicitation to any other State employee unless the Solicitation specifically identifies a person other than the Solicitation contact person as a contact.
3. Submission of Inquiries. The State Treasurer or the person identified in the Solicitation as the contact for inquiries requires that an inquiry be submitted in writing. Any inquiry related to a Solicitation shall refer to the appropriate Solicitation number, page and paragraph. Do not place the Solicitation number on the outside of the envelope containing that inquiry, since it may then be identified as an Offer and not be opened until after the Offer due date and time. The State shall

consider the relevancy of the inquiry but is not required to respond in writing.

4. Timeliness. Any inquiry or exception to the solicitation shall be submitted as soon as possible and should be submitted at least seven days before the Offer due date and time for review and determination by the State. Failure to do so may result in the inquiry not being considered for a Solicitation Amendment.

5. No Right to Rely on Verbal Responses. A Bidder shall not rely on verbal responses to inquiries. A verbal reply to an inquiry does not constitute a modification of the solicitation.

6. Solicitation Amendments. The Solicitation shall only be modified by a Solicitation Amendment.

7. Pre-Offer Conference. If a pre-Offer conference has been scheduled under this Solicitation, the date, time and location shall appear on the Solicitation cover sheet or elsewhere in the Solicitation. Bidders should raise any questions about the Solicitation or the procurement at that time. A Bidder may not rely on any verbal responses to questions at the conference. Material issues raised at the conference that result in changes to the Solicitation shall be answered solely through a written Solicitation Amendment.

8. Persons With Disabilities. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the Solicitation contact person. Requests shall be made as early as possible to allow time to arrange the accommodation.

## **C. Offer Preparation**

1. Forms: No Facsimile, Telegraphic or Electronic Mail Offers. An Offer shall be submitted either on the forms provided in this Solicitation or their substantial equivalent. Any substitute document for the forms provided in this Solicitation must be legible and contain the same information requested on the forms, unless the solicitation indicates otherwise. A facsimile, telegraphic, mailgram or electronic mail Offer shall be rejected if submitted in response to requests for proposals or invitations for bids.

2. Typed or Ink; Corrections. The Offer shall be typed or in ink. Erasures, interlineations or other modifications in the Offer shall be initialed in ink by the person signing the Offer. Modifications shall not be permitted after Offers have been opened except as otherwise provided under applicable law.

3. Evidence of Intent to be Bound. The Offer and Acceptance form within the Solicitation shall be submitted with the Offer and shall include a signature (or acknowledgement for electronic submissions, when authorized) by a person authorized to sign the Offer. The signature shall signify the Bidder's intent to be bound by the Offer and the terms of the Solicitation and that the information provided is true, accurate and complete. Failure to submit verifiable evidence of intent to be bound, such as an original signature, shall result in rejection of the Offer.

4. Exceptions to Terms and Conditions. All exceptions included with the Offer shall be submitted in a clearly identified separate section of the Offer in which the Bidder clearly identifies the specific paragraphs of the Solicitation where the exceptions occur. Any exceptions not included in such a section shall be without force and effect in any resulting Contract unless such exception is specifically accepted by the State Treasurer or designee in a written statement. The Bidder's preprinted or standard terms will not be considered by the State as a part of any resulting Contract.

4.1 Invitation for Bids. An Offer that takes exception to a material requirement of any part of the Solicitation, including terms and conditions, shall be rejected.



4.2 Request for Proposals. All exceptions that are contained in the Offer may negatively affect the State's proposal evaluation based on the evaluation criteria stated in the Solicitation or result in rejection of the Offer. An offer that takes exception to any material requirement of the solicitation may be rejected.

5. Subcontracts. Bidder shall clearly list any proposed subcontractors and the subcontractor's proposed responsibilities in the Offer.

6. Cost of Offer Preparation. The State will not reimburse any Bidder the cost of responding to a Solicitation.

7. Solicitation Amendments. Each Solicitation Amendment shall be signed with an original signature by the person signing the Offer, and shall be submitted no later than the Offer due date and time. Failure to return a signed copy of a Solicitation Amendment may result in rejection of the Offer.

8. Federal Excise Tax. The State of Arizona is exempt from certain Federal Excise Tax on manufactured goods. Exemption Certificates will be provided by the State.

9. Provision of Tax Identification Numbers. Bidders are required to provide their Arizona Transaction Privilege Tax Number and/or Federal Tax Identification number in the space provided on the Offer and Acceptance Form.

9.1 Employee Identification. Bidder agrees to provide an employee identification number or social security number for the purposes of reporting to appropriate taxing authorities, monies paid under this contract. If the federal identifier of the Bidder is a social security number, this number is being requested solely for tax reporting purposes and will be shared only with appropriate state and federal officials. This submission is mandatory under 26 U.S.C. § 6041A.

10. Identification of Taxes in Offer. The State of Arizona is subject to all applicable state and local transaction privilege taxes. All applicable taxes shall be included in the pricing offered in the solicitation. At all times, payment of taxes and the determination of applicable taxes are the sole responsibility of the contractor.

11. Disclosure. If the firm, business or person submitting this Offer has been debarred, suspended or otherwise lawfully precluded from participating in any public procurement activity, including being disapproved as a subcontractor with any Federal, state or local government, or if any such preclusion from participation from any public procurement activity is currently pending, the Bidder shall fully explain the circumstances relating to the preclusion or proposed preclusion in the Offer. The Bidder shall include a letter with its Offer setting forth the name and address of the governmental unit, the effective date of this suspension or debarment, the duration of the suspension or debarment, and the relevant circumstances relating to the suspension or debarment. If suspension or debarment is currently pending, a detailed description of all relevant circumstances including the details enumerated above shall be provided.

12. Solicitation Order of Precedence. In the event of a conflict in the provisions of this Solicitation, the following shall prevail in the order set forth below:

- 12.1 Special Terms and Conditions;
- 12.2 Uniform Terms and Conditions;
- 12.3 Statement or Scope of Work;
- 12.4 Specifications;

- |      |   |
|------|---|
| 12.5 | Attachments;  |
| 12.6 | Exhibits;   |
| 12.7 | Special Instructions to Bidders;                            |
| 12.8 | Uniform Instructions to Bidders;                            |
| 12.9 | Other documents referenced or included in the Solicitation. |

13. Delivery. Unless stated otherwise in the Solicitation, all prices shall be F.O.B. Destination and shall include all freight, delivery and unloading at the destination(s).

#### **D. Submission of Offer**

1. Sealed Envelope or Package. Each Offer shall be submitted to the submittal location identified in this Solicitation. Offers should be submitted in a sealed envelope or container. The envelope or container should be clearly identified with name of the Bidder and Solicitation number. The State may open envelopes or containers to identify contents if the envelope or container is not clearly identified.

2. Offer Amendment or Withdrawal. An Offer may not be amended or withdrawn after the Offer due date and time except as otherwise provided under applicable law.

3. Public Record. All Offers submitted and opened are public records and must be retained by the State. Offers shall be open to public inspection after Contract award, except for such Offers deemed to be confidential by the State. If a Bidder believes that information in its Offer should remain confidential, it shall indicate as confidential the specific information and submit a statement with its Offer detailing the reasons that the information should not be disclosed. Such reasons shall include the specific harm or prejudice which may arise. The State shall determine whether the identified information is confidential pursuant to the Arizona Procurement Code.

4. Non-collusion, Employment, and Services. By signing the Offer and Acceptance Form or other official contract form, the Bidder certifies that:

4.1 The Bidder did not engage in collusion or other anti-competitive practices in connection with the preparation or submission of its Offer; and

4.2 The Bidder does not discriminate against any employee or applicant for employment or person to whom it provides services because of race, color, religion, sex, national origin, or disability, and that it complies with all applicable Federal, state and local laws and executive orders regarding employment.

#### **E. Evaluation**

1. Unit Price Prevails. In the case of discrepancy between the unit price or rate and the extension of that unit price or rate, the unit price or rate shall govern.

2. Prompt Payment Discount. Prompt payment discounts of thirty (30) days or more set forth in an Offer shall be deducted from the offer for the purposes of evaluating that price.

3. Late Offers. An Offer submitted after the exact Offer due date and time shall be rejected.

4. Disqualification. A Bidder (including each of its principals) who is currently debarred, suspended or otherwise lawfully prohibited from any public procurement activity shall have its offer rejected.

5. Offer Acceptance Period. A Bidder submitting an Offer under this Solicitation shall hold its Offer open for the number of days from the Offer due date that is stated in the Solicitation. If the

Solicitation does not specifically state a number of days for Offer acceptance, the number of days shall be one hundred-twenty (120). If a Best and Final Offer is requested pursuant to a Request for Proposal, a Bidder shall hold its Offer open for one hundred-twenty (120) days from the Best and Final Offer due date.

5.1 Waiver and Rejection Rights. Notwithstanding any other provision of the Solicitation, the State reserves the right to:

- 5.1.1 Waive any minor informality;
- 5.1.2 Reject any and all Offers or portions thereof; or
- 5.1.3 Cancel the Solicitation.

#### **F. Award**

1. Contract inception. An Offer does not constitute a Contract nor does it confer any rights on the Bidder to the award of a Contract. A Contract is not created until the Offer is accepted in writing by the State Treasurer's (or designee) signature on the Offer and Acceptance Form. A notice of award or of the intent to award shall not constitute acceptance of the Offer.

2. Effective Date. The effective date of this Contract shall be the date that the State Treasurer or designee signs the Offer and Acceptance form or other official contract form, unless another date is specifically stated in the Contract.

#### **G. Protests**

A protest shall comply with and be resolved according to Arizona Revised Statutes Title 41, Chapter 23, Article 9 and rules adopted there under. Protests shall be in writing and be filed with the State Treasurer's Office. A protest of a Solicitation shall be received by the Office of the State Treasurer before the Offer due date. A protest of a proposed award or of an award shall be filed within ten (10) days after the protester knows or should have known the basis of the protest. A protest shall include:

- 1.1 The name, address and telephone number of the protester;
- 1.2 The signature of the protester or its representative;
- 1.3 Identification of the purchasing agency and the Solicitation or Contract number;
- 1.4 A detailed statement of the legal and factual grounds of the protest including copies of relevant documents; and
- 1.5 The form of relief requested.

### **SPECIAL TERMS AND CONDITIONS**

#### **1 Term of Contract**

1.1 The term of contract shall commence from December 1, 2008 and shall remain in effect for a period of three (3) years thereafter unless terminated, canceled or extended as otherwise provided herein.

1.2 The State reserves the right to extend the contract up to a maximum of twenty four (24) months.

1.3 The contract shall not bind nor purport to bind the State for any contractual commitment in excess of the original contract period. The Office of the State Treasurer shall have the right, at its sole option, to renew the contract for two (2) one year renewals. If the Office of the State Treasurer exercises such rights, all terms, conditions and provisions of the original contract shall remain the same and apply during the renewal period.

## **2 Project Management**

2.1 The Contractor shall appoint a project manager to be responsible for the planning, progress, and successful completion of all activities during the contract period.

2.2 The Contractor shall, within seven (7) days after the award of the contract, submit a written identification and notification to the Office of the State Treasurer of the name, title, address, and telephone number of one (1) individual within its organization as a duly authorized representative to whom all correspondence, official notices, and requests related to the contractor's performance pursuant to the contract shall be addressed. The Contractor shall have the right to change or substitute the name of the individual described above as deemed necessary with written approval of the State Treasurer or designee.

2.3 The Office of the State Treasurer shall provide the contractor with the name of a contact person who will coordinate all information to and/or from the Contractor.

## **3 Insurance**

3.1 The Contractor shall procure and maintain until all of their obligations have been discharged, including any warranty periods under this Contract, are satisfied, insurance against claims for injury to persons or damage to property which may arise from or in connection with the performance of the work hereunder by the Contractor, his agents, representatives, employees or subcontractors.

The insurance requirements herein are minimum requirements for this Contract and in no way limit the indemnity covenants contained in this Contract. The State of Arizona in no way warrants that the minimum limits contained herein are sufficient to protect the Contractor from liabilities that might arise out of the performance of the work under this contract by the Contractor, its agents, representatives, employees or subcontractors, and Contractor is free to purchase additional insurance. The custodian bank shall furnish the State certification from insurer(s) for coverage of bank employees with limits of liability not less than those stated below.

Commercial General Liability (Policy shall include bodily injury, property damage, personal injury and broad form contractual liability coverage.)

General Aggregate	\$2,000,000
Products - Completed Operations Aggregate	\$1,000,000
Personal and Advertising Injury	\$1,000,000
Blanket Contractual Liability - Written and Oral	\$1,000,000
Fire Legal Liability	\$ 50,000
Each Occurrence	\$1,000,000

The policy shall be endorsed to include the following additional insured language:

"The State of Arizona, its departments, agencies, boards, commissions,

universities and its officers, agents, and employees shall be named as additional insureds with respect to liability arising out of the activities performed by or on behalf of the Contractor”.

Policy shall contain a waiver of subrogation against the State of Arizona, its departments, agencies, boards, commissions, universities and its officers, officials, agents, and employees for losses arising from work performed by or on behalf of the Contractor.

#### **4 Federal Immigration and Nationality Act**

4.1 By entering into the Contract, the Contractor warrants compliance with the Federal Immigration and Nationality Act (FINA) and all other Federal immigration laws and regulations related to the immigration status of its employees. The Contractor shall obtain statements from its subcontractor(s) certifying compliance and shall furnish the statements to the Office of the State Treasurer upon request. These warranties shall remain in effect through the term of the Contract. The Contractor and its subcontractor(s) shall also maintain Employment Eligibility Verification forms (I-9) as required by the U. S. Department of Labor's Immigration and Control Act, for all employees performing work under the Contract. I-9 forms are available for download at USCIS.GOV.

The State may request verification of compliance for any Contractor or subcontractor performing work under the Contract. Should the State suspect or find that the Contractor or any of its subcontractors are not in compliance, the State may pursue any and all remedies allowed by law, including, but not limited to: suspension of work, termination of the Contract for default, and suspension and/or debarment of the Contractor. All costs necessary to verify compliance are the responsibility of the Contractor.

#### **5 Disaster Recovery**

5.1 The successful bidder is required to maintain a tested disaster recovery and business continuity plan throughout the term of the contract resulting from this Request for Proposal. This plan, along with any modifications or testing results will be available for review by the Office of the State Treasurer with notice.

At a minimum, such disaster recovery plan will include information regarding the steps taken to avoid interruptions in service availability to the State of Arizona. The plan must address the recovery time objective (RTO), the recovery point objective (RPO), the establishment of a minimum level of critical support, and a maximum tolerable downtime. Additionally, the plan will include information regarding at least one alternative processing facility, its capacity and capability levels, along with specific methods to provide access to information if the primary system is out of service.

### **UNIFORM TERMS AND CONDITIONS**

#### **1 Definition of Terms.** As used in this Solicitation and any resulting Contract, the terms listed below are defined as follows:

1.1 “Attachment” means any item the Solicitation requires the Bidder to submit as part of the Offer.

1.2 “Contract” means the combination of the Solicitation, including the Uniform and Special Instructions to Bidders, the Uniform and Special Terms and Conditions, and the Specifications and

Statement or Scope of Work; the Offer and any Best and Final Offers; and any Solicitation Amendments or Contract Amendments.

1.3 “Contract Amendment” means a written document signed by the State Treasurer or designee that is issued for the purpose of making changes in the Contract.

1.4 “Contractor” means any person who has a Contract with the State.

1.5 “Days” means calendar days unless otherwise specified.

1.6 “Exhibit” means any item labeled as an Exhibit in the Solicitation or placed in the Exhibits section of the Solicitation.

1.7 “Gratuity” means a payment, loan, subscription, advance, deposit of money, services, or anything of more than nominal value, present or promised, unless consideration of substantially equal or greater value is received.

1.8 “Materials” means all property, including equipment, supplies, printing, insurance and leases of property but does not include land, a permanent interest in land or real property or leasing space.

1.9 “Procurement Officer” means the person, or his or her designee, duly authorized by the State to enter into and administer Contracts and make written determinations with respect to the Contract.

1.10 “Services” means the furnishing of labor, time or effort by a contractor or subcontractor which does not involve the delivery of a specific end product other than required reports and performance, but does not include employment agreements or collective bargaining agreements.

1.11 “Subcontract” means any Contract, express or implied, between the Contractor and another party or between a subcontractor and another party delegating or assigning, in whole or in part, the making or furnishing of any material or any service required for the performance of the Contract.

1.12 “State” means the State of Arizona and Department or Agency of the State that executes the Contract.

1.13 “State Fiscal Year” means the period beginning with July 1 and ending June 30.

## **2 Contract Interpretation**

2.1 Arizona Law. The Arizona law applies to this Contract including, where applicable, the Uniform Commercial Code as adopted by the State of Arizona and the Arizona Procurement Code, Arizona Revised Statutes (A.R.S.) Title 41, Chapter 23, and its implementing rules, Arizona Administrative Code (A.A.C.) Title 2, Chapter 7.

2.2 Implied Contract Terms. Each provision of law and any terms required by law to be in this Contract are a part of this Contract as if fully stated in it.

2.3 Contract Order of Precedence. In the event of a conflict in the provisions of the Contract, as accepted by the State and as they may be amended, the following shall prevail in the order set

forth below:

- 2.3.1 Special Terms and Conditions;
- 2.3.2 Uniform Terms and Conditions;
- 2.3.3 Statement or Scope of Work;
- 2.3.4 Specifications;
- 2.3.5 Attachments;
- 2.3.6 Exhibits;
- 2.3.7 Documents referenced or included in the Solicitation.

2.4 Relationship of Parties. The Contractor under this Contract is an independent Contractor. Neither party to this Contract shall be deemed to be the employee or agent of the other party to the Contract.

2.5 Severability. The provisions of this Contract are severable. Any term or condition deemed illegal or invalid shall not affect any other term or condition of the Contract.

2.6 No Parole Evidence. This Contract is intended by the parties as a final and complete expression of their agreement. No course of prior dealings between the parties and no usage of the trade shall supplement or explain any terms used in this document and no other understanding either oral or in writing shall be binding.

2.7 No Waiver. Either party's failure to insist on strict performance of any term or condition of the Contract shall not be deemed a waiver of that term or condition even if the party accepting or acquiescing in the nonconforming performance knows of the nature of the performance and fails to object to it.

### **3 Contract administration and operation.**

3.1 Records. Under A.R.S. § 35-214 and § 35-215, the Contractor shall retain and shall contractually require each subcontractor to retain all data and other "records" relating to the acquisition and performance of the Contract for a period of five years after the completion of the Contract. All records shall be subject to inspection and audit by the State at reasonable times. Upon request, the Contractor shall produce a legible copy of any or all such records.

3.2 Non-Discrimination. The Contractor shall comply with State Executive Order No. 99-4 and all other applicable Federal and State laws, rules and regulations, including the Americans with Disabilities Act.

3.3 Audit. Pursuant to ARS § 35-214, at any time during the term of this Contract and five (5) years thereafter, the Contractor's or any subcontractor's books and records shall be subject to audit by the State and, where applicable, the Federal Government, to the extent that the books and records relate to the performance of the Contract or Subcontract.

3.4 Facilities Inspection and Materials Testing. The Contractor agrees to permit access to its facilities, subcontractor facilities and the Contractor's processes or services, at reasonable times for inspection of the facilities or materials covered under this Contract. The State shall also have the right to test, at its own cost, the materials to be supplied under this Contract. Neither inspection of the Contractor's facilities nor materials testing shall constitute final acceptance of the materials or services. If the State determines noncompliance of the materials, the Contractor shall be responsible for the payment of all costs incurred by the State for testing and inspection.

3.5 Notices. Notices to the Contractor required by this Contract shall be made by the State to the person indicated on the Offer and Acceptance form submitted by the Contractor unless

otherwise stated in the Contract. Notices to the State required by the Contract shall be made by the Contractor to the Solicitation Contact Person indicated on the Solicitation cover sheet, unless otherwise stated in the Contract. An authorized Procurement Officer and an authorized Contractor representative may change their respective person to whom notice shall be given by written notice to the other and an amendment to the Contract shall not be necessary.

3.6 Advertising, Publishing and Promotion of Contract. The Contractor shall not use, advertise or promote information for commercial benefit concerning this Contract without the prior written approval of the State Treasurer or designee.

3.7 Property of the State. Any materials, including reports, computer programs and other deliverables, created under this Contract are the sole property of the State. The Contractor is not entitled to a patent or copyright on those materials and may not transfer the patent or copyright to anyone else. The Contractor shall not use or release these materials without the prior written consent of the State.

3.8 Ownership of Intellectual Property. Any and all intellectual property, including but not limited to copyright, invention, trademark, trade name, service mark, and/or trade secrets created or conceived pursuant to or as a result of this contract and any related subcontract ("Intellectual Property"), shall be work made for hire and the State shall be considered the creator of such Intellectual Property. The agency, department, division, board or commission of the State of Arizona requesting the issuance of the contract shall own (for and on behalf of the State) the entire right, title and interest to the Intellectual Property throughout the world. Contractor shall notify the State, within thirty (30) days, of the creation of any Intellectual Property by it or its subcontractor(s). Contractor, on behalf of itself and any subcontractor(s), agrees to execute any and all document(s) necessary to assure ownership of the Intellectual Property vests in the State and shall take no affirmative actions that might have the effect of vesting all or part of the Intellectual Property in any entity other than the State. The Intellectual Property shall not be disclosed by contractor or its subcontractor(s) to any entity not the State without the express written authorization of the agency, department, division, board or commission of the State of Arizona requesting the issuance of this contract.

## **4 Costs and Payments**

4.1 Payments. Payments shall comply with the requirements of A.R.S. Titles 35 and 41, Net 30 days. Upon receipt and acceptance of goods or services, the Contractor shall submit a complete and accurate invoice for payment from the State within thirty (30) days.

4.2 Delivery. Unless stated otherwise in the Contract, all prices shall be F.O.B. Destination and shall include all freight delivery and unloading at the destination.

4.3 Applicable Taxes.

4.3.1 Payment of Taxes. The Contractor shall be responsible for paying all applicable taxes.

4.3.2 State and Local Transaction Privilege Taxes. The State of Arizona is subject to all applicable state and local transaction privilege taxes. Transaction privilege taxes apply to the sale and are the responsibility of the seller to remit. Failure to collect such taxes from the buyer does not relieve the seller from its obligation to remit taxes.

4.3.3 Tax Indemnification. Contractor and all subcontractors shall pay all federal, state and local taxes applicable to its operation and any persons employed by the Contractor. Contractor shall, and require all subcontractors to hold the State harmless from any responsibility for taxes, damages and interest, if applicable, contributions required under



federal, and/or state and local laws and regulations and any other costs including transaction privilege taxes, unemployment compensation insurance, Social Security and Worker's Compensation.

4.3.4 IRS W9 Form. In order to receive payment the Contractor shall have a current IRS W9 Form on file with the State of Arizona, unless not required by law.

4.4 Availability of Funds for the next State fiscal year. Funds may not presently be available for performance under this Contract beyond the current state fiscal year. No legal liability on the part of the State for any payment may arise under this Contract beyond the current state fiscal year until funds are made available for performance of this Contract.

4.5 Availability of Funds for the current State fiscal year. Should the State Legislature enter back into session and reduce the appropriations or for any reason and these goods or services are not funded, the State may take any of the following actions:

- 4.5.1 Accept a decrease in price offered by the contractor;
- 4.5.2 Cancel the Contract;
- 4.5.3 Cancel the Contract and re-solicit the requirements.

## **5 Contract changes**

5.1 Amendments. This Contract is issued under the authority of the State Treasurer or designee who signed this Contract. The Contract may be modified only through a Contract Amendment within the scope of the Contract. Changes to the Contract, including the addition of work or materials, the revision of payment terms, or the substitution of work or materials, directed by a person who is not specifically authorized by the State Treasurer or designee in writing or made unilaterally by the Contractor are violations of the Contract and of applicable law. Such changes, including unauthorized written Contract Amendments shall be void and without effect, and the Contractor shall not be entitled to any claim under this Contract based on those changes.

5.2 Subcontracts. The Contractor shall not enter into any Subcontract under this Contract for the performance of this contract without the advance written approval of the State Treasurer or designee. The Contractor shall clearly list any proposed subcontractors and the subcontractor's proposed responsibilities. The Subcontract shall incorporate by reference the terms and conditions of this Contract.

5.3 Assignment and Delegation. The Contractor shall not assign any right nor delegate any duty under this Contract without the prior written approval of the State Treasurer or designee. The State shall not unreasonably withhold approval.

## **6 Risk and Liability**

6.1 Risk of Loss. The Contractor shall bear all loss of conforming material covered under this Contract until received by authorized personnel at the location designated in the purchase order or Contract. Mere receipt does not constitute final acceptance. The risk of loss for nonconforming materials shall remain with the Contractor regardless of receipt.

6.2 Indemnification

6.2.1 Contractor/Vendor Indemnification (Not Public Agency). The parties to this contract agree that the State of Arizona, its' departments, agencies, boards and commissions shall be indemnified and held harmless by the contractor for the vicarious liability of the State as a result of entering into this contract. However, the parties further

agree that the State of Arizona, its' departments, agencies, boards and commissions shall be responsible for its' own negligence. Each party to this contract is responsible for its' own negligence.

6.2.2 Public Agency Language Only. Each party (as 'indemnitor') agrees to indemnify, defend, and hold harmless the other party (as 'indemnitee') from and against any and all claims, losses, liability, costs, or expenses (including reasonable attorney's fees) (hereinafter collectively referred to as 'claims') arising out of bodily injury of any person (including death) or property damage but only to the extent that such claims which result in vicarious/derivative liability to the indemnitee, are caused by the act, omission, negligence, misconduct, or other fault of the indemnitor, its' officers, officials, agents, employees, or volunteers.

6.3 Indemnification - Patent and Copyright. The Contractor shall indemnify and hold harmless the State against any liability, including costs and expenses, for infringement of any patent, trademark or copyright arising out of Contract performance or use by the State of materials furnished or work performed under this Contract. The State shall reasonably notify the Contractor of any claim for which it may be liable under this paragraph. If the contractor is insured pursuant to A.R.S. § 41-621 and § 35-154, this section shall not apply.

#### 6.4 Force Majeure

6.4.1 Except for payment of sums due, neither party shall be liable to the other nor deemed in default under this Contract if and to the extent that such party's performance of this Contract is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the party affected and occurs without its fault or negligence. Without limiting the foregoing, force majeure includes acts of God; acts of the public enemy; war; riots; strikes; mobilization; labor disputes; civil disorders; fire; flood; lockouts; injunctions-intervention-acts; or failures or refusals to act by government authority; and other similar occurrences beyond the control of the party declaring force majeure which such party is unable to prevent by exercising reasonable diligence.

6.4.2 Force Majeure shall not include the following occurrences:

6.4.2.1 Late delivery of equipment or materials caused by congestion at a manufacturer's plant or elsewhere, or an oversold condition of the market;

6.4.2.2 Late performance by a subcontractor unless the delay arises out of a force majeure occurrence in accordance with this force majeure term and condition; or

6.4.2.3 Inability of either the Contractor or any subcontractor to acquire or maintain any required insurance, bonds, licenses or permits.

6.4.3 If either party is delayed at any time in the progress of the work by force majeure, the delayed party shall notify the other party in writing of such delay, as soon as is practicable and no later than the following working day of the commencement thereof and shall specify the causes of such delay in such notice. Such notice shall be delivered or mailed certified-return receipt and shall make a specific reference to this article, thereby invoking its provisions. The delayed party shall cause such delay to cease as soon as practicable and shall notify the other party in writing when it has done so. The time of completion shall be extended by Contract Amendment for a period of time equal to the time that results or effects of such delay prevent the delayed party from performing in accordance with this Contract.

6.4.4 Any delay or failure in performance by either party hereto shall not constitute default

hereunder or give rise to any claim for damages or loss of anticipated profits if, and to the extent that such delay or failure is caused by force majeure.

6.5 Third Party Antitrust Violations. The Contractor assigns to the State any claim for overcharges resulting from antitrust violations to the extent that those violations concern materials or services applied by third parties to the Contractor, toward fulfillment of this Contract.

## **7 Warranties**

7.1 Liens. The Contractor warrants that the materials supplied under this Contract are free of liens and shall remain free of liens.

7.2 Quality. Unless otherwise modified elsewhere in these terms and conditions, the Contractor warrants that, for one year after acceptance by the State of the materials, they shall be:

7.2.1 of a quality to pass without objection in the trade under the Contract description;

7.2.2 fit for the intended purposes for which the materials are used;

7.2.3 within the variations permitted by the Contract and are of even kind, quantity, and quality within each unit and among all units;

7.2.4 adequately contained, packaged and marked as the Contract may require; and

7.2.5 conform to the written promises or affirmations of fact made by the Contractor.

7.3 Fitness. The Contractor warrants that any material supplied to the State shall fully conform to all requirements of the Contract and all representations of the Contractor, and shall be fit for all purposes and uses required by the Contract.

7.4 Inspection/Testing. The warranties set forth in subparagraphs 7.1 through 7.3 of this paragraph are not affected by inspection or testing of or payment for the materials by the State.

7.5 Compliance With Applicable Laws. The materials and services supplied under this Contract shall comply with all applicable federal, state and local laws, and the Contractor shall maintain all applicable licenses and permit requirements.

7.6 Survival of Rights and Obligations after Contract Expiration or Termination

7.6.1 Contractors Representations and Warranties. All representations and warranties made by the Contractor under this Contract shall survive the expiration or termination hereof. In addition, the parties hereto acknowledge that pursuant to A.R.S. § 12-510, except as provided in A.R.S. § 12-529, the State is not subject to or barred by any limitations of actions prescribed in A.R.S. Title 12, Chapter 5.

7.6.2 Purchase Orders. The Contractor shall, in accordance with all terms and conditions of the Contract, fully perform and shall be obligated to comply with all purchase orders received by the Contractor prior to the expiration or termination hereof, unless otherwise directed in writing by the State Treasurer or designee, including, without limitation, all purchase orders received prior to but not fully performed and satisfied at the expiration or termination of this Contract.

## **8 State's Contractual Remedies**

8.1 Right to Assurance. If the State in good faith has reason to believe that the Contractor does not intend to, or is unable to perform or continue performing under this Contract, the Office of the State Treasurer may demand in writing that the Contractor give a written assurance of intent to perform. Failure by the Contractor to provide written assurance within the number of days specified in the demand may, at the State's option, be the basis for terminating the Contract under the Uniform Terms and Conditions or other rights and remedies available by law or provided by the contract.

8.2 Stop Work Order

8.2.1 The State may, at any time, by written order to the Contractor, require the Contractor to stop all or any part, of the work called for by this Contract for period(s) of days indicated by the State after the order is delivered to the Contractor. The order shall be specifically identified as a stop work order issued under this clause. Upon receipt of the order, the Contractor shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the order during the period of work stoppage.

8.2.2 If a stop work order issued under this clause is canceled or the period of the order or any extension expires, the Contractor shall resume work. The Office of the State Treasurer shall make an equitable adjustment in the delivery schedule or Contract price, or both, and the Contract shall be amended in writing accordingly.

8.3 Non-exclusive Remedies. The rights and the remedies of the State under this Contract are not exclusive.

8.4 Nonconforming Tender. Materials or services supplied under this Contract shall fully comply with the Contract. The delivery of materials or services or a portion of the materials or services that do not fully comply constitutes a breach of contract. On delivery of nonconforming materials or services, the State may terminate the Contract for default under applicable termination clauses in the Contract, exercise any of its rights and remedies under the Uniform Commercial Code, or pursue any other right or remedy available to it.

8.5 Right of Offset. The State shall be entitled to offset against any sums due the Contractor, any expenses or costs incurred by the State, or damages assessed by the State concerning the Contractor's non-conforming performance or failure to perform the Contract, including expenses, costs and damages described in the Uniform Terms and Conditions.

**9 Contract Termination**

9.1 Cancellation for Conflict of Interest. Pursuant to A.R.S. § 38-511, the State may cancel this Contract within three (3) years after Contract execution without penalty or further obligation if any person significantly involved in initiating, negotiating, securing, drafting or creating the Contract on behalf of the State is or becomes at any time while the Contract or an extension of the Contract is in effect an employee of or a consultant to any other party to this Contract with respect to the subject matter of the Contract. The cancellation shall be effective when the Contractor receives written notice of the cancellation unless the notice specifies a later time. If the Contractor is a political subdivision of the State, it may also cancel this Contract as provided in A.R.S. § 38-511.

9.2 Gratuities. The State may, by written notice, terminate this Contract, in whole or in part, if the State determines that employment or a Gratuity was offered or made by the Contractor or a representative of the Contractor to any officer or employee of the State for the purpose of influencing the outcome of the procurement or securing the Contract, an amendment to the Contract, or favorable treatment concerning the Contract, including the making of any

determination or decision about contract performance. The State, in addition to any other rights or remedies, shall be entitled to recover exemplary damages in the amount of three times the value of the Gratuity offered by the Contractor.

9.3 Suspension or Debarment. The State may, by written notice to the Contractor, immediately terminate this Contract if the State determines that the Contractor has been debarred, suspended or otherwise lawfully prohibited from participating in any public procurement activity, including but not limited to, being disapproved as a subcontractor of any public procurement unit or other governmental body. Submittal of an offer or execution of a contract shall attest that the contractor is not currently suspended or debarred. If the contractor becomes suspended or debarred, the contractor shall immediately notify the State.

9.4 Termination for Convenience. The State reserves the right to terminate the Contract in whole or in part at any time, when in the best interests of the State without penalty or recourse. Upon receipt of the written notice, the Contractor shall stop all work, as directed in the notice, notify all subcontractors of the effective date of the termination and minimize all further costs to the State. In the event of termination under this paragraph, all documents, data and reports prepared by the Contractor under the Contract shall become the property of and be delivered to the State upon demand. The Contractor shall be entitled to receive just and equitable compensation for work in progress, work completed and materials accepted before the effective date of the termination. The cost principles and procedures provided in A.A.C. R2-7-701 shall apply.

9.5 Termination for Default

9.5.1 In addition to the rights reserved in the contract, the State may terminate the Contract in whole or in part due to the failure of the Contractor to comply with any term or condition of the Contract, to acquire and maintain all required insurance policies, bonds, licenses and permits, or to make satisfactory progress in performing the Contract. The Office of the State Treasurer shall provide written notice of the termination and the reasons for it to the Contractor.

9.5.2 Upon termination under this paragraph, all goods, materials, documents, data and reports prepared by the Contractor under the Contract shall become the property of and be delivered to the State on demand.

9.5.3 The State may, upon termination of this Contract, procure, on terms and in the manner that it deems appropriate, materials or services to replace those under this Contract. The Contractor shall be liable to the State for any excess costs incurred by the State in procuring materials or services in substitution for those due from the Contractor.

9.6 Continuation of Performance Through Termination. The Contractor shall continue to perform, in accordance with the requirements of the Contract, up to the date of termination, as directed in the termination notice.

**10 Arbitration**

10.1 The parties to this Contract agree to resolve all disputes arising out of or relating to this contract through arbitration, after exhausting applicable administrative review, to the extent required by A.R.S § 12-1518, except as may be required by other applicable statutes (Title 41).

## **SCOPE OF WORK**

### **1 General Requirements**

- 1.1 The Arizona State Treasurer or designee will appoint the successful bidder(s) as its investment advisor(s) for the purposes of providing technical and strategic advice for portfolio management. The selected investment advisor(s) will provide advice only and not manage funds.
- 1.2 The term of this contract shall begin on December 1, 2008 and will end at the close of business on November 30, 2011. In addition, the contract can be extended for two (2) one year renewal periods as noted in the SPECIAL TERMS AND CONDITIONS.
- 1.3 Assist with preparation of asset allocation studies. Provide advice and recommendations for formulating strategic investment policies for the various investment pools and provide support as requested to implement such policies pursuant to the fiduciary duties of a prudent investor of like monies.
- 1.5 Provide quarterly written evaluations of each of the investment pools operated by the Arizona State Treasurer's Office. The evaluation should include return attribution characteristics, risk analysis, style analysis, peer universe comparisons and holdings analysis relative to benchmarks.
- 1.6 Provide an independent alert to impending economic, market, or other applicable risks that may affect the portfolio. Provide advice on risk measurement and management issues and risk management program structure. The selected investment advisor must be able to identify and communicate associated legal risk factors.
- 1.7 Serve as an advisory member of the risk management/credit review committee and attend meetings (via telephone is acceptable) at least monthly and as often as weekly if circumstances warrant.
- 1.8 Assist on an as-needed basis in the identification, evaluation, and selection of any external investment managers pursuant to Arizona State Treasurer's Office staff request for external investment management services. Said search may be related to specific markets or asset classes (e.g. equities, fixed income) or investment strategies (e.g. absolute return investing).
- 1.9 Advise staff on an as-needed basis on new investment techniques and trends in institutional investment management.
- 1.10 Reports/Data - Provide security over all records, reports, and related material and shall release such information only in a manner authorized by the Arizona State Treasurer's Office.

### **2 Credit**

- 2.1 Monitoring the aggregate portfolio for credit quality. This includes providing credit quality analyses as required for potential investments and making recommendations of which credits the portfolio should hold in each of the investment pools operated by Arizona State Treasurer's Office including recommending new credits to purchase.

**Exhibit 1**

**PRICING SCHEDULE**

The contract amount will be determined by the fees proposed by the successful bidder. Payment will be made quarterly in arrears. Please provide your proposed pricing structure below.

## **ARIZONA STATE TREASURY INVESTMENT POLICY FOR INVESTED MONIES**

**DEAN MARTIN, STATE TREASURER**

### **POLICY**

It is the investment policy of the Arizona State Treasurer and his office (hereinafter referred to as "the Treasurer") to maintain the safety of principal, maintain liquidity to meet cash flow needs, and provide competitive investment returns. The Treasurer will strive to invest with the judgment and care that prudent individuals would exercise, in the exercise of their own affairs.

The Treasurer with the State Board of Investment (BOI), acting in their capacity as trustees, pursuant to [Article X, Section 7](#), Constitution of Arizona and [A.R.S. § 35-314.01](#), has determined that a portion of the assets of the permanent endowment funds be invested in equities. The equity allocation in equities shall be capped at 60% of the total cost of the permanent endowment funds. Any investment of the State Budget Stabilization Fund in equity securities pursuant to [A.R.S. § 35-314.02](#), shall also be governed by this policy including a phase-in over five years of up to 25% of total cost.

This policy shall:

- Establish the S&P Large-Cap 500, S&P Mid-Cap 400, and the S&P Small-Cap 600 indices as the benchmarks for determining the mix of equity weightings in the portfolio
- Establish the role of the Treasurer in managing an equity portfolio consistent with the requirements of [Article X, Section 7 C.](#), of the Arizona Constitution.

### **SCOPE**

The Treasurer follows [A.R.S. Title 35, Chapter 2, Article 2.0](#), and other investment guidelines mandated by statute. The Treasurer, however, does not determine the legal capacity or statutory investment restrictions that will apply to specific depositors (such as investment restrictions set by statute, regulation or local charter). Any political subdivision of the state depositing monies with the Treasurer must assure itself that investments contained in the applicable pool comport with the subdivision's specific investment authority. In addition, the Treasurer does not limit or restrict yield on pools unless specifically mentioned herein. Depositors wishing to restrict yield for purposes of the Internal Revenue Service's Arbitrage Bond Regulations (Treasury Regulation Section 1.148-1 et seq.) must make their own determinations as to whether any designated pool deposit meets any restricted yield obligation pertaining to the funds deposited.



## Objectives

### FIXED INCOME

The primary objectives, in order of priority, of the Treasurer's investment activities as they relate to non-equity investments are:

**Safety.** Safety of principal is the foremost objective of the investment programs. The Treasurer will seek to ensure preservation of principal in the overall portfolio.

**Liquidity.** The investment pools and funds will remain sufficiently liquid to enable pools and funds to meet all operating requirements that might be reasonably anticipated. At present, withdrawals of the Local Government Investment Pool (Pool 5) or Local Government Investment Pool GOV (Pool 7) may be made on the same day if a draw down request is received by 10:00 a.m. on such day. Withdrawals over \$3 million dollars require 24-hour advance notice; withdrawals over \$5 Million require 72-hour notice; withdrawals over \$10 Million require 5-day notice; and withdrawals over \$20 Million require 7-day notice.

Transfers to and from the LGIP Long-Term Pool (Pool 500) or LGIP-GOV Long Term Pool (Pool 700) shall be made once per month upon receipt of notification at least five business days prior to the end of the month. The effective date of the transfer will be the first business day of the next month. A minimum of \$250,000 is required to open and maintain an account in the long-term pools.

The Treasurer cannot anticipate all instances which might adversely affect this policy therefore, the goal of liquidity is subject to change as economic or other conditions warrant.

**Return on Investment.** The investment pools and funds shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives.

### EQUITY

The Treasurer may manage up to three separate equity funds.

The benchmark for the funds will be the S&P 500 Large-Cap Index, the S&P 400 Mid-Cap Index, and the S&P 600 Small-Cap Index. The total cost basis of the S&P 500 Equity Index Pool shall not exceed 75% of the total cost basis of all equities.

The total cost basis of the S&P 400 Equity Index Pool shall not exceed 40% of the total cost basis of all equities.

The total cost basis of the S&P 600 Equity Index Pool shall not exceed 20% of the total cost basis of all equities.

## PERFORMANCE EVALUATION AND REPORTING

Evaluation and monitoring of investment performance is the responsibility of the Chief Investment Officer. The Investment Accounting Manager shall generate investment performance statistics and activity reports.

The Investment Accounting Manager shall provide summary reports on a monthly basis to the Treasurer and the Chief Investment Officer. The monthly reports shall also be provided to the Board of Investment for review and approval.

Comparative performance reviews will be conducted monthly. The State Board of Investment reviews the performance and status of the portfolio monthly.

#### Monthly Performance Analysis

The following reports are provided in the monthly report to the Treasurer and the Board of Investment and are matters of public record.

Month-end Investment Summary: The month-end investments are summarized by type of investment. The report summarizes original cost and market values of investments in the pools and funds. The month-end equity investments are summarized by S&P 500 Equity Index Pool, S&P 400 Equity Index Pool, and S&P 600 Equity Index Pool sectors (including cash and SPDR holdings) specified in each index, with columns depicting market value and fund and index sector weightings.

Investment Returns (period, year-to-date, and prior year).

Interest distributed for period.

Investment trading activity detail (endowment and equity funds only).

Actual interest distributed for general fund.

Comparison of fund/pool performance to selected benchmarks or indices. (S&P 500 Large-Cap, S&P 400 Mid-Cap, & S&P 600 Small-Cap Indices for equities.)

Realized gains and losses (endowment and equity funds only).

Summary of accounts by cities, counties, and other public entities.

Broker activity report.

Fixed-income investments maturity distribution.

Credit rating analysis.

Duration / WAM analysis.

Investment returns vs. index analysis.

Investment policy compliance report (quarterly).

Summary of accounts by cities, counties, and other public entities (quarterly).

Broker activity report (quarterly).

#### Daily Reporting

The Investment Accounting Manager prepares a daily report of all purchases and sales, investment pool and fund balances.

#### Annual Reporting

The annual audited financial report shall be submitted to the Governor pursuant to [A.R.S. § 41-172A.8](#), on or before November 1 of each year.

#### Custodian Reconciliation

The report of investment holdings shall be reconciled within 30 days of the close of each month to the Treasurer's custodian bank. Discrepancies shall be reported to the Treasurer.

#### Permitted Investment Instruments

Under [A.R.S. 35-312](#) and [35-313](#), the Treasurer is permitted to invest and reinvest treasury monies in certain permitted investments. The following items set forth those investments permitted by law. The individual pool or fund may be designed in a manner, which does not permit all such investments to be made.

Obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.

Repurchase agreements and tri-party repurchase agreements, collateralized at no less than 102 percent by securities or 100 percent by cash, purchased from securities dealers that make markets in those securities listed in Section A. Repurchase agreements and tri-party repurchase agreements collateralized by mortgage-backed securities shall be collateralized at no less than 105 percent. In all cases, collateral must be delivered to the Treasurer's custody institution, or held in an account for the benefit of the Treasurer in an institution meeting the requirements of [ARS § 35-310.1](#) as an eligible depository. In the case of tri-party repurchase agreements, the eligible depository may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the Treasurer or Chief Investment Officer within 24 hours of settlement. The Chief Investment Officer will measure the volatility and make a professional judgment on appropriateness of the collateral.

Bonds or other evidences of indebtedness of this state or any of the counties or incorporated cities, towns or duly organized school districts which carry as a minimum a Baa (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors.

Treasurer's warrant notes issued pursuant to [A.R.S. § 35-185.01](#) or registered warrants of a county issued pursuant to [A.R.S. § 11-605](#), if the yield is equal or greater than yields on eligible investment instruments of comparable maturities.

State Transportation Board Funding Obligations, subject to [A.R.S. § 35-313\(D\)](#), delivered pursuant to [A.R.S. § 28-7678](#).

Commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSO's). The three current NRSO's include Standard & Poor's, Moody's, and Fitch. The ratings assigned by at least two NRSO's must be of the two highest rating categories for short-term obligations. All commercial paper must be issued by entities organized and doing business in the United States.

Bills of exchange or time drafts known as bankers acceptances which are issued by commercial banks chartered and doing business in the United States with ratings as outlined in Section V (E), and/or long term debt rating of Baa (Investment Grade) or better by Moody's Investors Service or BBB (Investment Grade) or better rating of Standard and Poor's Reporting Service or their successors.

Negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan association which carry as a minimum a Baa (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors.

Bonds, debentures and notes issued by corporations organized and doing business in the United States which carry as a minimum a Baa (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors.

Securities of or any other interests in any open-end management type investment company or investment trust registered under the Investment Company Act of 1940 (54 Stat. 789; 15 United States Code §§ 80a-1 through 80a-64), as amended, if all of the following are stated to be the investment company's policy:

The investment company or investment trust takes delivery of the collateral for any repurchase agreement either directly or through an authorized custodian.

The investment policy of the investment company or investment trust includes seeking to maintain a net asset value of one dollar.

Any of the investments authorized in [A.R.S. § 35-312](#) and [A.R.S. § 35-313](#) not heretofore mentioned, which are limited to shares in the Treasurer's local government investment pools which seek to maintain a constant share price, certificates of deposit, collateralized repurchase agreements, deposit accounts and collateralized interest bearing saving accounts with eligible depositories, and certificates of deferred property taxes as provided by [A.R.S. § 42-17309](#).

Any of the investments authorized in [A.R.S. § 35-312](#) and [35-313](#) not heretofore mentioned, which are limited to certificates of deposit, collateralized repurchase agreements, deposit accounts and collateralized interest bearing saving accounts with Arizona depositories.

Securities with a Hard Put may be purchased even though the stated final maturity exceeds the fund/pool's guidelines for maximum final maturity as long as the put-date does not exceed those same guidelines. The portfolio manager may decide not to put the security back to the issuer only if the final maturity (or next hard put date) falls within the fund/pool's guidelines for maximum allowable maturity.

For the purposes of managing and reporting, the equity portfolio is a separately managed pool that may include any investment participant authorized by statute to invest in equities.

The equity portfolio manager shall divide the stocks in the S&P 500 Equity Index Pool, S&P 400 Equity Index Pool, and S&P 600 Equity Index Pool into the appropriate industry sectors for the purpose of reporting and performance tracking.

Bloomberg Inc. and other available analytical systems will be utilized as necessary in order to establish the capitalization weight of each stock in each sector as a percentage of the total S&P 500 Large-Cap Index, S&P 400 Mid-Cap Index, and S&P 600 Small-Cap Index market capitalization.

For the S&P 500 Equity Index Pool, the sector and individual equity weightings of the pool will coincide with the weights of the S&P 500 Large-Cap Index. The S&P 500 Equity Index Pool weightings shall be managed with the goal of allowing a variance relative to the S&P 500 Large-Cap Index. The variance shall be no more than 5 percent of the market value of the portfolio per sector and 1 percent of the market value of the portfolio per individual equity.

For the S&P 500 Equity Index Pool, the equity portfolio manager shall replicate the stocks currently in the S&P 500 Large-Cap Index and shall rebalance the fund at least quarterly and invest all cash received in Standard and Poor's Depository Receipts (SPDRs). SPDRs may be liquidated as needed to rebalance the portfolio.

For the S&P 400 Equity Index Pool, the equity portfolio manager shall manage the pool with the goal of producing results similar to the S&P 400 Mid-Cap Index. Equities in the pool shall be limited to those existing in the S&P 400 Mid-Cap Index.

For the S&P 600 Equity Index Pool, the equity portfolio manager shall manage the pool with the goal of producing results similar to the S&P 600 Small-Cap Index. Equities in the pool shall be limited to those existing in the S&P 600 Small-Cap Index.

## **FUND DESCRIPTIONS AND MATURITY LIMITATIONS**

**POOL 2 - STATE AGENCIES I** (U.S. Govt Full Faith and Credit); the final maturity or, if applicable, average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase. This pool is used by any State Agency who has a statutory requirement that investments carry the full faith and credit of the United States of America. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

**POOL 3 - STATE AGENCIES II** (Diversified Asset Mix); the final maturity, or if applicable average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase. This pool is used by any state agency where the authority to invest references A.R.S. §35-312 or §35-313. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

**POOL 5 - LGIP**; the final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security

shall not exceed five years. The dollar weighted average portfolio maturity (WAM) shall not exceed 120 days. The pool is used for liquid cash equivalent needs for public entities.

The portfolio manager shall strive to maintain a Net Asset Value (NAV) of \$1.00 (\$.995 - 1.005) for the pool. Unrealized market value gains/losses exceeding this threshold will be realized against income in that same month to the extent that they exceed the allowable range.

**POOL 6 - STATE AGENCIES III** (U.S. Govt and Agencies); the final maturity, or if applicable average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years. This pool is used by state agencies that may only invest in U.S. Treasury & Agency securities (but, not necessarily required to be guaranteed by the full faith and credit of the U.S. Government). Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

**POOL 7 - LGIP - GOV**; the final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed five years. The dollar weighted average maturity (WAM) shall not exceed 120 days. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool. This pool is used for public entities requiring or desiring a liquid investment in a "full faith and credit" pool.

The portfolio manager shall strive to maintain a Net Asset Value (NAV) of \$1.00 (\$.995 - 1.005) for the pool. Unrealized market value gains/losses exceeding this threshold will be realized against income in that same month to the extent that they exceed the allowable range.

**POOL 8 - STATE AGENCIES IV.** This pool was set up mainly to meet the investment needs of ADOT RARF proceeds. Securities that may be purchased for this pool include U.S. Government and Agency securities (but, not necessarily required to be guaranteed by the full faith and credit of the U.S. Government), and commercial paper, CD's, and BA's with the highest short-term rating from both Standard and Poor's and Moody's (A1+ / P1). Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

**POOL 9 - BOARD FUNDING OBLIGATIONS.** The only securities issued for this pool are State Infrastructure Bank Board Funding Obligations issued pursuant to [A.R.S. §28-7678.](#) The only participant in the pool is the state operating fund.

**POOL 11 - SCHOOL FACILITIES BOARD BONDS.** This pool is set up to invest the proceeds of a \$500 million bond issue by the School Facilities Board. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool.

**POOL 12 - CAWCD MEDIUM-TERM POOL.** This pool is established to provide the Central Arizona Water Conservation District with investments in medium and long-term securities. The target duration of the pool is 4.5 years. Securities, at time of purchase, will carry, as a minimum, an A or better rating by either Moody's Investors Service or Standard and Poor's Rating Service or their successors. Eligible securities include U.S. Treasury, agency, corporate notes, MBS/ABS, and money market instruments with a minimum rating of A1/P1. No state agency or general fund participation is allowed in this pool. CAWCD owns the SECURITIES in this pool (as opposed to SHARES).

**POOL 14 - SCHOOL FACILITIES BOND PROCEEDS.** This pool was established to



separately account for and invest the bond proceeds and related funds from bonds issued by the School Facilities Board. Only securities issued by the U.S. Government and its agencies may be purchased for this pool.

**Pool 15 – GADA Pool.** This pool is established to provide the Greater Arizona Development Authority with investments in long-term securities. The target duration of the pool is five years. Any fixed income investment authorized under [A.R.S. § 35-313](#) is allowed in this pool. GADA owns the SECURITIES in this pool (as opposed to SHARES).

**POOL 201 - S&P 500 EQUITY INDEX POOL.** This pool of domestic equities is intended to mirror the composition of the Standard & Poor's 500 Index.

**POOL 203 - S&P 400 EQUITY INDEX POOL.** This pool of domestic equities is intended to produce results similar to the S&P 400 Mid-Cap Index.

**POOL 204 – S&P 600 EQUITY INDEX POOL.** This pool of domestic equities is intended to produce results similar to the S&P Small-Cap 600 Index.

**POOL 205 - LONG-TERM ENDOWMENT FIXED-INCOME POOL.** All of the fixed-income securities that had separately belonged to the endowment funds (101-114) were pooled on July 1, 2001 and SHARES of the pool were distributed to the endowment funds. This is a pool of fixed-income corporate and U.S. Government securities. Established to provide the endowment funds with fixed-income exposure and to diversify holdings for the smaller funds. The maximum allowable weighted-average duration is 15 years.

**FUNDS 101-114** - Monies shall be invested pursuant to [Article X, Section 7](#) of the constitution to provide income to recipients of the thirteen endowment funds. Allowable investments include shares in Pool 201 (S&P 500 Equity Index Pool), Pool 203 (S&P 400 Equity Index Pool), Pool 204 (S&P 600 Equity Index Pool), and Pool 205 (Long-Term Endowment Fixed-Income Pool).

**Pool 500 – LGIP Long-Term Pool.** This pool is designed to meet the longer term investment needs of local government/public entities. The final maturity, or applicable average life based on Bloomberg average pre-payment estimates at time of purchase, of any fixed-rate security shall not exceed five years from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed five years. The duration for the pool shall not exceed .75 years greater than the Merrill 1-5 U.S. Domestic Master Index.

The portfolio manager will not strive to maintain a Net Asset Value (NAV) of \$1.00 for the pool. Income is distributed monthly. Gains and losses (realized and unrealized) are reflected in the NAV calculated each month.

**Pool 700 – LGIP-GOV Long-Term Pool.** This pool is for local government/public entities requiring or desiring an investment in a “full faith and credit” pool. The final maturity, or applicable average life based on Bloomberg average pre-payment estimates at time of purchase, of any fixed rate security shall not exceed five years from the settlement date of the purchase. The final maturity of any variable rate security shall not exceed five years. The duration for the pool shall not exceed .75 years greater than the Merrill 1-5 U.S. Treasuries Index. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool.

The portfolio manager will not strive to maintain a Net Asset Value (NAV) of \$1.00 for the pool. Income is distributed monthly. Gains and losses (realized and unrealized) are reflected in the NAV calculated each month.

## **DIVERSIFICATION**

It is the policy of the Treasurer to diversify the investment portfolio to minimize losses due to various circumstances. The circumstances include, but are not limited to; issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. No more than five percent of the total of each pool or fund (defined as five percent of the prior month's ending amortized book value on the date purchased), or five percent of the issues outstanding, whichever is less, shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. The diversification policy, as it relates to the maximum (5%) investment with a single issuer, applies only to Pools 3, 5, 205, and 500. Securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempted from this provision.

## **PORTFOLIO MANAGEMENT**

Following the primary objective of preservation of capital, investments shall be actively managed to take advantage of market opportunities. In so doing, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or reduce risk.

## **PROHIBITED INVESTMENT PURCHASES**

Reverse Repurchase Agreements (unless otherwise authorized under a securities lending agreement with a second party).

Futures, Contractual Swaps, Options

Inverse Floaters

Interest Only Securities

Forward Contracts

Interest bearing securities that have a possibility of not accruing current income

Closed end management type companies

Securities whose yield/market value is based on currency, commodity or non-interest indices

Bearer-form securities

The Treasurer, prior to purchase, shall approve any security product not described in this document in writing.

## **BROKERS/DEALERS**

Investment transactions shall only be conducted with financial institutions that are licensed as may be required by law to do business in Arizona. Primary government securities dealers, or broker-dealers engaged in the business of selling government securities shall be registered in compliance with section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to [A.R.S. § 44-3101](#), as amended. In addition, investment transactions shall be conducted only with those direct issuers who meet both credit and capital requirements established by the Treasurer. It shall be the responsibility of the broker-dealer to provide the following:



Audited most recent annual financial statements within six months of the close of the fiscal year

Unaudited most recent quarterly financial statements

Proof of National Association of Security Dealers certification

Proof of Arizona registration (as needed)

A signed letter acknowledging that they have read the Treasurer's investment policies.

The Treasurer shall maintain a listing of approved broker dealers that is reviewed at least semi-annually.

The Treasurer will periodically ask brokers to quote prices (as of the last day of the prior month) for securities. This is required because the pricing service did not provide a price/prices for certain securities. The Treasurer requires these quotes no later than six business days after the broker has received the request. Non-compliance with this policy will result in the suspension of trading with that broker until such quotes are received.

## **DELEGATION OF AUTHORITY**

Authority to manage the State's investment program is vested in the Treasurer under the trusteeship of the Board of Investments pursuant to the Arizona Constitution and Arizona Revised Statutes. Day-to-day management responsibility for the investment program is delegated to the portfolio managers under the direction of the Chief Investment Officer, who is responsible for investment decisions and activities under the direction of the Treasurer. The Chief Investment Officer shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Investment Officer. The Chief Investment Officer shall be responsible for all transactions undertaken.

The Chief Investment Officer shall establish a system of internal controls to regulate the activities of investment personnel and the Treasurer shall approve this system. In the development of the system of internal controls, consideration shall be given to documentation of strategies and transactions, techniques for avoiding collusion, separation of functions, delegation of authority, limitations of action and custodial safekeeping.

## **PURCHASES AND SALES OF SECURITIES**

All trades shall be executed with the objective of realizing the best bid or offer price available. It is the responsibility of the investment personnel to know the "market price" or relative values of all securities before trades are executed. The method used by the investment personnel shall be the one that will obtain the best execution price or value given the objective of the transaction.

## **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees of the Treasurer involved in the investment process shall adhere to the conflict of interest laws as set forth in [A.R.S. § 38-501 through 38-511](#). They shall refrain from personal business activity that could conflict with proper execution of the

investment program, or which could impair their ability to make impartial investment decisions. All such investment officials shall disclose to the Treasurer, at least annually, any holdings material to their investment portfolio in financial institutions that conduct business within this jurisdiction, and they shall further disclose any related parties who are employed by financial institutions doing business with the State's portfolios. All investment officials shall subordinate their personal investment transactions to those of the State, particularly with regard to the timing of purchase and sales.

## **QUALIFICATIONS OF INVESTMENT OFFICIALS**

### **Chief Investment Officer**

This position is appointed by the Treasurer, and is responsible for planning directing and managing the investment programs of the State as outlined in this policy document. This position is under the direction of the Treasurer and such appointee shall meet the following guidelines:

A bachelor's degree from an accredited institution in a finance-related field;

Eight years of work experience as an investment or trust officer for a financial institution, association, or corporation, or governmental entity;

Five years experience in money market and fixed income investing.

## **SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery versus payment basis. Securities shall be held by the Treasurer or a custodian designated by the Treasurer and evidenced by custodial reports.

## **INVESTMENTS NOT GUARANTEED**

Participants of investment pools own shares in the pool, except where noted in section VI. The value of a share in a pool is determined by dividing the total market value of the pool by the number of shares outstanding. The owners of share(s) are entitled to their proportional share of principal of bonds in the pool (at any point in time) and interest (as determined by their weighted average daily balance of the pool). Neither the Treasurer nor the State of Arizona makes any guarantees that the value of a participant's shares will remain constant.

## **OTHER**

Any deviation from the preceding policy shall require the prior specific written authority of the Treasurer.

This policy will be reviewed semi-annually to keep abreast of changes in the financial market place.

Questions regarding, or requests for copies of this investment policy can be addressed to the Investment Accounting Manager at (602) 604-7800.

Effective Date: March 19, 2008

Dean Martin

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Dean Martin, State Treasurer